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Preface

Item 546.S. of the 1998 Amendments to the 1998 Appropriation Act established the Commission on Reform of the Classified Compensation Plan. The Commission was charged with recommending reforms to the Commonwealth's classified compensation plan. Required provisions for the Commission to consider in its recommendations included establishing a state-wide compensation program that provides flexibility to meet state workforce needs; performance-based salary increases; a stable funding mechanism; a revised means of gauging the competitiveness of state classified salaries and employee benefits; a clear definition of roles of the Department of Personnel and Training and state agencies in the administration of the new classified pay plan; and an employee communications program. Optional provisions for the Commission to consider in its recommendations included multiple pay plans and broad occupational classes; a team approach to performance increases; elimination of fixed pay steps; alternative rewards, and; other modern compensation features, as deemed appropriate for a large, multi-site employer.

The Commission's work began in September 1998. This report provides the final recommendations of the Commission's work and integrates information contained in the Interim Commission Report dated January 15, 1999 and the Joint Commission on Management of the Commonwealth's Workforce (*Workforce Commission*) 1994 Exposure Draft.

Senator Benjamin J. Lambert III
Co-Chairman

Delegate Lacey E. Putney
Co-Chairman

_____, 1999

Executive Summary

The Commonwealth of Virginia employs approximately 63,000 classified employees with an annual payroll of approximately 2.3 billion dollars. The classified personnel system that supports this large investment should provide state agencies a framework for the effective delivery of services to the citizens of the State. The classification and compensation components of the personnel system are in need of change in order for agencies to continue to effectively carry out their missions. Government leaders, agency heads, state employees and managers, as well as the Virginia Governmental Employees Association (VGEA), recognize the need for major change.

The State's current classified compensation system has existed in its present form since the sixties. The basic elements of the current system have remained the same for some forty years. A study conducted by Worldwide Watson Wyatt in 1994, an international human resources consulting firm, identified many major deficiencies in the current system. In 1994, the Workforce Commission released an Exposure Draft with specific recommendations in the form of objectives on how to address these major deficiencies. These objectives were again highlighted and adopted by the Commission on Reform of the Classified Compensation Plan's in the Interim Report dated January 15, 1998. Notable findings in the 1994 Exposure Draft and the 1998 Interim Report were:

- The current system's method of linking pay to performance has been problematic due to inconsistent funding, in part, caused by the current graded pay plan's design with fixed steps (fixed percentages) that require the appropriation of dollar amounts associated with pay steps (one step - 2.25%; two steps - 4.54%; three steps - 6.97%).
- The classifications in the current classified system are too narrowly defined, which do not support a more dynamic and changing state workforce.
- The current classified pay practices have not been changed since the sixties and are out-of-date with the pay practices of public and private employers with whom the Commonwealth competes for skilled employees.
- The current system's restrictions on in-range pay adjustments and other modern pay practices have resulted in a dependence on the widespread reclassification of positions and promotions to provide employee salary increases.
- The current classified pay system has created significant salary compression issues, as an outcome of a need to hire new employees at higher salaries, while current employees have barely moved in their respective pay grade (salary range).

To address the above issues and to assist the Commission, a Technical Advisory Committee (TAC) was established to serve as internal consultants to the Commission. The TAC was comprised of central agency representatives, chief human resource officers from agencies, and legislative fiscal analysts from the Senate Finance Committee and House Appropriations Committee. In addition, an Employee Advisory Committee (EAC) was established to provide input and feedback to the Commission and the TAC. The EAC was comprised of non-management classified employees from agencies.

As internal consultants to the Commission, the TAC facilitated the new pay plan design by organizing into six teams: Classification and Pay Structure Team; Performance Management Team; Pay Practices Team; Training and Communications Team; Survey Methodology Team; DPT/Agency Roles and Responsibilities Team.

The Commission met seven times during 1999 to hear the recommendations of the TAC and to provide direction. During this time, the Commission considered a number of different reform options. Based on these options, the Commission directed the TAC to combine two of the four options presented. The four options were: 1) to keep the current system with no changes; 2) to modify the current system by adding new pay practices and stepless pay ranges; 3) to establish three pay plans (Management, Administrative and Professional Plan; Public Safety Plan; Non-Exempt/Support Personnel Plan); and 4) to establish one pay plan with variable salary ranges for each classification. The Commission directed the TAC to combined the best practices of options three and four, which is being recommended in this report.

In addition, the Commission defined the following transition assumptions and directed the TAC to incorporate these into the design of the new plan. These major transition assumptions are as follows: 1) no employee gains or loses money in the transition (cross-walk) to the new plan; 2) future salary increases will come from the implementation of the new plan; 3) training and communication are essential during the start up and ongoing maintenance of the new plan; 4) the new plan must be performance-based; 5) the new plan would incorporate modern compensation practices; and 6) the new plan should be implemented during the 2000-02 biennium.

The Commission accepts the TAC's proposed design of the new plan and recommends the following major reforms be implemented. (See Section II: Recommendations for additional detail.)

- **Recommendation 1: Pay Structure**

The Commission recommends the establishment of a new pay structure with nine (9) pay bands, which are stepless versus the existing twenty-three (23) pay grades with pay steps.

- **Recommendation 2: Classification Consolidation**

To promote consistency throughout the State and enable career progression within job families, the Commission recommends that the existing 1,650 classifications be merged into approximately 275 new broader job groupings called "roles."

- **Recommendation 3: Career Growth**

The Commission recommends that the new plan support career growth by implementing new job groupings called occupational families, career groups and roles. New Career Group Descriptions will be written to define these new career groups and roles.

- **Recommendation 4: Job Evaluation Methodology**

The Commission recommends that the Commonwealth continue to use the position classification method in determining the minimum and maximum worth of each job in the new plan (i.e., the level of compensation appropriate for the type of work). The Commission further recommends the establishment of new compensable factors, such as complexity of work, results, and accountability, to replace the seven compensable factors currently used to determine the relative worth of each "role".

- **Recommendation 5: Survey Methodology**

The Commission recommends the establishment of a new salary survey methodology to ensure that classified salaries are competitive with appropriate public and private sector markets.

- **Recommendation 6: Performance Management**

The Commission recommends a new performance management program with three (3) rating levels to replace the existing five (5) rating levels. In addition, the Commission recommends the new program incorporate optional features such as employee upward feedback on supervisor performance, employee self-assessment, and team/individual supervisory appraisal.

- **Recommendation 7: Pay Practices**

The Commission recommends the establishment of new pay practices such as, in-range pay adjustments, rewards and recognition programs. It also recommends revisions to existing pay practices such as starting pay, promotion, reallocation, and lateral transfer to make the system more flexible.

- **Recommendation 8: Training and Communication**

The Commission understands that successful implementation of the recommended pay plan will depend on the training of managers and employees, and endorses a comprehensive and on-going training effort.

- **Recommendation 9: DPT/Agency Roles and Responsibilities**

The Commission recommends that administration of the new plan have an appropriate set of management controls and accountabilities assigned to DPT and agencies. Therefore, the Commission recommends a multi-tiered comprehensive training program that will train all managers and employees.

- **Recommendation 10: Funding of New Plan**

The Commission recommends approval of the proposed funding to implement the new plan; furthermore the Commission intends to recommend a stable funding mechanism during CY 2000.

- **Recommendation 11: Continuation of the Commission**

The Commission recommends that its charge and its advisory committees be continued through the next biennium, through June 30, 2002, to monitor the implementation of the new classified compensation plan.